FISCAL NOTE

Bill #: SB0297 **Title:** Local option sales tax

Primary Sponsor: Glaser, B **Status:** As Introduced

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 Difference	FY 2005 Difference
Expenditures:		
General Fund	$0	$0
Revenue:		
General Fund	$0	$0
Net Impact on General Fund Balance:	$0	0

☒ Significant Local Gov. Impact
☒ Technical Concerns
☐ Included in the Executive Budget
☐ Significant Long-Term Impacts
☐ Dedicated Revenue Form Attached
☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This bill would give all cities and counties the authority to levy a local option sales tax on luxury goods and services. Combined city and county tax rates in any location could not exceed 4%. 70% of revenue would be allocated to the city or county imposing the tax and 30% would be redistributed among cities and counties.
2. The revenue local governments would receive from adopting local option sales taxes would depend on how many jurisdictions adopted the tax, the tax rates they adopted, and the specific goods and services they taxed.
3. This bill gives a non-exclusive list of "luxury goods and services" and provides specific exemptions from the tax, but gives local governments wide latitude in choosing whether to tax other goods and services.
4. Sales of goods and services specifically listed as "luxury goods and services" are projected to be approximately $1.86 billion in fiscal 2005. If local options sales taxes with combined rates of 4% were adopted everywhere in the state, if all jurisdictions allowed merchants to retain 5% of tax collections as an administrative allowance, and if compliance were 95%, revenue collected by all jurisdictions together would be approximately $67 million (95% x 95% x 4% x $1.86 billion). If all jurisdictions adopted a 4% tax and choose to tax more goods and services the revenue would be more than $67 million. If not all jurisdictions imposed the tax or some imposed a tax of less than 4%, the revenue would be less than $67 million.

5. This bill would require local governments to use at least 30% of local options sales tax revenue to reduce property taxes. If local option sales tax collections are $67 million, local governments will have net revenue of $46.9 million and county and municipal property taxes would be reduced by $20.1 million.
6. This bill would have no administrative impacts on the Department of Revenue.
7. The impact to state revenues would come in the form of non-levy revenue. Non-levy revenues are revenues that are not directly produced by mill levies but are distributed to taxing jurisdiction based on the proportion of the taxing jurisdiction's mill levies to the total of all mill levies of all taxing jurisdictions where the non-levy revenue was produced. An example of a non-levy revenue source is oil and gas production tax. The state general fund would gain in non-levy revenue by counties and cities reducing their property tax mill levies. If all jurisdictions adopted a 4% sales tax and appropriately lowered their property tax, it is estimated that the state general fund non-levy revenue would increase approximately $70,000. This estimate is if *all* jurisdictions implement the *maximum* rate of 4%. The actual increase in non-levy revenue would be dependent on how many of the eligible jurisdictions choose to implement the tax, when the jurisdictions implement the tax, where these jurisdictions are, what tax rate is chosen, and what the base of the tax will be.

<u>EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:</u>
See assumptions 1-7.

<u>TECHNICAL NOTES:</u>
1. Section 8 requires that revenue from a local option sales tax be redistributed to counties and municipalities in the same region and subregion as the entity imposing the tax. The bill does not specify who is to make the redistribution. This fiscal note assumes that each county or municipality would be responsible for redistributing local option sales tax it collects.